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RR RUEHWEB

DE RUEHBU #1451/01 2970938
ZNR UUUUU ZZH
R 230938Z OCT 08
FM AMEMBASSY BUENOS AIRES
TO RUEHC/SECSTATE WASHDC 2300
INFO RUEHMD/AMEMBASSY MADRID 2151
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUCPDOG/DEPT OF COMMERCE WASHINGTON DC
RUEHRC/DEPT OF AGRICULTURE USD FAS WASHINGTON DC
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RHMFIUU/HQ USSOUTHCOM MIAMI FL
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E.O. 12958: N/A
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SUBJECT: SPANISH-ARGENTINE RELATIONS: SPAIN WAITING OUT TOUGH TIMES

Ref:
A) BUENOS AIRES 1277
B) BUENOS AIRES 1395
C) BUENOS AIRES 1396

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Summary

¶1. (SBU) SBU Ambassador met with Spanish Ambassador to Argentina, Rafael Estrella Pedrola, on October 16 to compare notes on recent developments. Estrella (protect) explained that Spanish-Argentine relations have been going through difficult times, in large part due to the GoA decision to nationalize the Argentine flag carrier Aerolineas Argentinas (AA) and its sister carrier Austral Airlines, and to actively dispute compensation claimed by the two firms' Spanish owners. He also commented on other Spanish investments in Argentina, the GoA's recent foreign debt announcements, and Argentina's political outlook. Despite lingering tensions, Argentine President Cristina Fernandez de Kirchner (CFK) is still planning to visit Spain in February. End Summary.

Unfriendly Skies

¶2. (SBU) Estrella said that the GoA's decision to nationalize AA and Austral and to actively dispute compensation claimed Marsans, their Spanish owner, had angered Prime Minister Zapatero and King Juan Carlos. The owner of Marsans heads the largest Spanish chamber of commerce, and he stoked the ire of the GoS. In the end, the Ambassador said he told Argentine Cabinet Chief Massa that CFK's visit to Spain should be postponed from October while both sides work to manage the airline issue constructively. Next February was agreed as a safer timeframe. However, GoA handling of the case since the discussion with Massa has not calmed Spanish concerns, Estrella said. GoA Transportation Secretary Jaime has distanced himself from the original agreement between the Marsans' group and the GoA (which Jaime did not heartily support), Qd Argentina's Congress did not accept the original method for establishing a value of the airlines, resulting in a large gap between what the Spanish company says it is owed and what Argentine authorities say the company is worth. (See ref a for background.) When President CFK met with President Zapatero in New York during the UN opening in late September, she said that an acceptable solution would be found. The Spanish are being patient waiting for that solution to emerge, the Ambassador said.

Other Investment

¶3. (SBU) Other Spanish firms in Argentina that have invested in public utilities have recently gotten some tariff relief to assure a return that will cover new investment needs but not a lot more, the Spanish Ambassador said. The GoA has indicated that it will let the prices and rates charged by the companies rise to cover basic company needs. But that commitment will need to be confirmed now that the economic situation has deteriorated. Estrella said that he is encouraged that, for the first time in his tour here, it looks like the GoA is trying to tackle some longer term economic issues, rather than just reacting to short term developments. While this apparent trend still needs to be confirmed by consistent GoA actions, local Spanish businessmen tell him they are hopeful about recent signs.

Paris Club and Bond Holdouts

¶4. (SBU) In this context, the Spanish Ambassador said that the recent GoA decisions to pay Paris Club debt and to open discussions on an arrangement with private bond holders were positive, but the timing was unfortunate. The global economic crisis has made their implementation problematic. Also, he said, the decisions were taken with the same poor policymaking style that characterized earlier Kirchner decisions: economic advisors were not involved until the decisions were ready to be announced or had been announced. And, as previously, this meant that some of important nuances of the initiatives were wrong at first, requiring correction after the fact. Still, Spain hopes that both processes will eventually proceed. (See refs b and c for background.)

Bilateral Trade and Mercosur

¶5. (SBU) The Spanish have no major problems with bilateral trade issues, according to Estrella. Exports and imports are growing, but he noted that Argentina enjoys a surplus, which mitigates the Argentine propensity to implement protectionist measures. He observed that Argentina protectionist tendencies seem to be manifestly themselves most clearly with respect to Brazil. President Lula is still committed to international trade, but CFK is grounded in the Argentine tradition of protecting industry. This is likely to lead to more problems in Mercosur during this economic downturn, though Lula seems to have given orders to try to avoid a clash with Argentina.

Digital TV

¶6. (SBU) The Spanish Ambassador said that his impression was that the Argentine decision to choose the Brazilian/Japanese norm for Digital TV still holds, but progress to implement it has slowed. He said he thinks this is because Lula has yet to deliver on promises to make new investments in Argentina, including an Embraer investment in the Cordoba aircraft manufacturing facility where Lockheed-Martin currently has the management contract.

Argentine Political Scene

¶7. (SBU) The Spanish Ambassador did not see the Argentine opposition rallying together anytime soon to pose an effective counter-force to the Kirchners. That might happen by 2011, he speculated, but it is just as likely that the effective opposition to the first couple will emerge from within the Peronist Party. All that said, he continued, for the 2009 Congressional elections, it looks very much like the Kirchners and their allies will be limited to 30-35% of the vote, and that the results will include an increased presence in Congress for the opposition within and without of the Peronist party.

WAYNE